IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO **DIVISION OF FINANCIAL MANAGEMENT** **DECEMBER 2002 VOLUME XXIV NO. 06**

It's beginning to look a lot like Christmas…finally. Some merchants now put up their holiday wares so early Santa would be more comfortable in a tank top and Bermuda shorts instead of his traditional red suit. But for diehard traditionalists the holidays don't start until after Thanksgiving. Given the lack of snow on the ground and this year's late Thanksgiving, it seemed the holidays would never come. Now, that the countdown to Christmas has begun, the time for finding the perfect gift is quickly running out.

Some gifts are no-brainers. What kid wouldn't be thrilled to find an X-Box or PS2 under their Christmas tree? Other gifts are definitely out of the question. It's probably better not to buy that special someone a Christmas tree car freshener and handful of Slim Jims from the place you purchase gasoline, even though it is the only store open on Christmas Day. Better yet, avoid missing someone by following the advice of Santa and checking your list twice.

If the economy were a person what kind of gifts would be appropriate to give it? Naturally, the first person to ask would be an economist. But be careful how many you ask, because no two of them will have the same items on their lists. In fact, consult too many economists and you could still be shopping on Labor Day. Instead of buying all the listed gifts, focus on the gifts that would be on most economists' lists. We think the three items below are safe bets.

Like diamonds and chocolate, lower interest rates are always a welcomed surprise. However, the Federal Reserve's Federal Open Market Committee passed on its latest chance this December to play Santa by leaving rates alone. But before the economy throws itself on the floor in a tantrum, it should be reminded that these are the lowest rates in a generation. So why is it being so tight fisted during this giving season? Perhaps its because it gave the economy an early gift in November when it dropped its bellwether federal funds rate a generous one-half percentage point. It is trying to be responsible by fueling, but not flooding, the economy. It will wait to see the results of its November gift before taking further action. It knows the impacts of this move are not expected to surface until next Memorial Day or the start of Chanukah. Of course, like any parent who can't refuse their child, the Federal Reserve could lower rates again if the recovery appears threatened.

A belated gift is being cobbled together as these words are written. This is a big one that will arrive from 1600 Pennsylvania Avenue instead of the North Pole. We are referring, of course, to the president's proposed tax cut package. This will be the latest in a series of gifts from the President to help stimulate the economy. The President has been generous in the past. (Remember the individual income tax rebate checks in 2001?) No one knows exactly what form the tax package will take because it must go through Congress. However, the economists at Global Insight have picked up the package and shaken it and have some idea of what's inside.

According to Global Insight, Congress and the President are expected to agree on a package of tax cuts in early 2003. The assumed package is worth $45 billion in its first year, and it will be comprised of a mix of cuts in personal taxes. Elimination of personal tax on dividends could well account for half, with acceleration of some already-scheduled changes accounting for the rest. With this added stimulus real GDP is expected to increase 2.9% in 2003 and 4.5% in 2004. Both estimates are about three-tenths of a percentage point higher than in a previous forecast. Like a box of premium chocolates, this gift is not expected to last forever. The stimulus wears off over the length of the forecast period, with most of it gone by 2006.

Another gift everyone would like to see under the economy's tree is more jobs. Although real GDP has been growing since the beginning of 2002, the employment picture has been disappointing. Late into the year, the nation's unemployment was still rising. This has been as frustrating as the child who has been extra good all year and finds only pajamas under the tree. In order for the unemployment rate to start falling, the economy needs to produce about 100,000 jobs per month. This is not anticipated until the second half of 2003. But once it does start to fall, the unemployment rate should ebb steadily to its full-employment threshold.

These three items are on most economists' Christmas gift wish list. Of course, no one usually gets everything they wanted. But economists shouldn't be disappointed. Instead of moping, they should start putting together a Kwanzaa list as soon as possible, just in case.

The staff of Idaho's Division of Financial Management wishes everyone Happy Holidays and a Prosperous New Year.

DIRK KEMPTHORNE, Governor

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General Fund Update

As of November 30, 2002

Revenue Source	FY03 Executive Estimate[3] ($ Millions)	DFM Predicted to Date ($ Millions)	Actual Accrued to Date ($ Millions)
Individual Income tax	890.9	318.6	325.8
Corporate Income tax	81.8	21.8	30.4
Sales Tax	673.2	291.1	302.9
Product Taxes[1]	21.6	9.4	9.4
Miscellaneous	99.9	27.5	29.2
TOTAL GENERAL FUND[2]	**1,767.4**	**668.4**	**697.7**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2002

General Fund revenue surged again in November, coming in $7.7 million ahead of the predicted amount. November's strength was concentrated primarily in Individual Income Tax withholding collections, with small contributions from Corporate Income Tax, Sales Tax, and Miscellaneous Revenue. Cumulative General Fund revenue through November is ahead of target by $29.3 million (4.4%). Sales Tax accounts for $11.8 million (4.1% ahead), Corporate Income Tax accounts for $8.6 million (39.4% ahead), and Individual Income Tax accounts for $7.2 million (2.3% ahead).

Individual income tax revenue was $4.3 million higher than expected in November, bringing year-to-date collections $7.2 million above expectations. Withholding collections were $4.2 million higher than expected in November, and are now $3.4 million higher than expected on a year-to-date basis. Obviously, withholding collections had been lagging expectations before November's surge. A Tax Commission examination of the hundred largest withholding accounts indicates that an extra payroll period for many employers is a major reason behind November's surge. The remainder of the year-to-date excess is due to stronger than expected filing payments, primarily in September and October. These payments are most likely tied to prior underpayments for the 2001 tax year.

Corporate income tax revenue was $1.2 million higher than expected in November, and now stands $8.6 million ahead of the year-to-date predicted amount. For the month, filing payments were $1.2 million higher than expected, accounting for all the month's excess. On a year-to-date basis filing payments are $7.9 million higher than expected. In the past seventeen years, only FY87 and FY97 have had higher filing payments in the July-November period. This year's amount of $12.4 million is 178% above the predicted amount, and 39% to 75% higher than any of the past five years.

Sales tax revenue was $1.6 million higher than expected in November, and now stands $11.8 million above the predicted amount for the year-to-date. Most of the year-to-date excess occurred in July through September, and coincided with very strong gains in automobile sales. This was not the case in November, as automobile sales took a sharp (16.9%) drop from year earlier levels.

Product tax revenue were exactly on target in November. Miscellaneous revenues were ahead by $0.6 million, with the strength in interest earnings and estate tax collections.